



City of Rockville
Mayor and Council
Agenda Item

For the meeting on:	February 23, 2009
Agenda Item Type:	Presentation
Department:	Finance
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Subject

FY 2010 Budget Preview

Recommendation

Staff recommends that the Mayor and Council review and file the FY 2010 Budget Preview, and offer additional guidance as necessary for preparing the FY 2010 Proposed Operating and Capital Improvement Program budgets.

Discussion

Tonight's presentation seeks the Mayor and Council's further guidance with regard to the development of the FY 2010 Proposed Operating and Capital Improvement Program (CIP) budgets. The FY 2010 budget is being prepared according to the priorities presented by the departments during the first and second budget previews in October and November 2008, and the budget principles that were adopted by the Mayor and Council on November 3, 2008. There will be other opportunities for the Mayor and Council to provide additional guidance and direction during the budget worksessions and public hearings that are listed in the FY 2010 budget calendar. As a reminder, the calendar now includes a separate public hearing for the constant yield tax rate, and an additional public hearing after the Mayor and Council worksessions (changes are below in italics).

October 27, 2008	Mayor and Council Budget Preview/Worksession - PART I
November 3, 2008	Mayor and Council Budget Preview/Worksession - PART II
February 23, 2009	Mayor and Council Budget Preview
March 23, 2009	Presentation of Proposed Budget Introduction of Ordinances and Resolutions
March 30, 2009	<i>Constant Yield Tax Rate Public Hearing</i> General Budget Public Hearing #1
April 13, 2009	General Budget Public Hearing #2
April 20, 2009	Mayor and Council Worksession - Operating
April 27, 2009	Mayor and Council Worksession - CIP, Other
May 4, 2009	<i>General Budget Public Hearing #3</i>
May 18, 2009	Budget Adoption

FY 2010 Financial Overview

In October/November 2008, City staff presented the Mayor and Council with a preview of the FY 2010 budget. This preview included budget principles, estimated General Fund revenues and expenditures, estimated utility rates, and an overview of each department's strategic issues and priorities for FY 2010. Since the October/November timeframe, overall economic conditions have worsened. The unprecedented economic conditions facing the nation are straining the ability of local governments to meet basic financial needs. Many local governments are responding to the economic downturn by making program and service cuts, delaying or cancelling capital projects, and instituting hiring freezes, layoffs, and furloughs.

Many of the local governments that are making cuts are experiencing structural deficits where operating costs are exceeding general revenues. Although the City of Rockville is not currently experiencing a structural deficit in the General Fund, we are not immune to the current economic conditions. Many of the City's major revenue sources are significantly impacted by the economic downturn and the reduction in revenues due to the deficits at the State and County level. Revenues such as highway user and tax duplication are projected to decrease in FY 2009 and FY 2010. Other revenues, like income tax and interest earnings, are directly impacted by the large number of layoffs and the poorly performing financial markets.

General Fund

Below is a summary of the FY 2010 General Fund expenditure and revenue budget principles. These principles contain information that will impact the FY 2010 Operating and CIP budgets. Because of the downturn in the economy, staff is no longer able to fund all of the budget principles that the Mayor and Council adopted on November 3, 2008. Under each principle is an explanation of what staff will recommend in the FY 2010 proposed budget. Staff will incorporate any final policy direction and guidance from the Mayor and Council for inclusion in the proposed budget.

Staff made very difficult decisions over the past few months in order to balance the budget. Staff carefully reviewed each expenditure and revenue category and recommended adjustments that would have the least impact on the City's ability to provide residents with high quality services. Staff estimates the overall General Fund budget will increase from the FY 2009 adopted budget by **1.9 percent to \$63.0 million** under these principles. The City has not experienced an increase this low since FY 1999. The average annual increase for the last ten years was approximately six percent. Staff will continue to remain vigilant with regards to overall General Fund growth in FY 2010 and future years, with emphasis on how economic trends and conditions will impact General Fund expenditures and revenues.

General Fund Expenditure Principles

EXPENDITURE PRINCIPLE #1 - Limit increases in the FY 2010 operating budget to essential City programs and services, evaluate personnel cost drivers with the goal of achieving savings in FY 2010 and future years, and maintain the FY 2009 level of General Fund FTEs.

Due to current economic conditions and the uncertainty surrounding the future of our major revenue sources, staff took a "belt tightening" approach in developing the FY 2010 operating budget. This approach provides funding for current programs and services, but includes several reductions that will mainly impact employees (for additional employee related reductions please refer to Expenditure Principle #4). Below are some of the major operating reductions from the FY 2009 adopted budget that will be included in the FY 2010 proposed budget. For FY 2011 and future years, more ongoing operating reductions may be necessary if the economy continues to worsen.

- Decrease employee travel and training - \$102,000 savings
- Eliminate all employee trophies and awards - \$21,000 savings
- Decrease artisans and outside trainers - \$52,700 savings

- Decrease contract services - \$47,500 savings
- Decrease capital outlay for equipment and tools - \$109,000 savings

EXPENDITURE PRINCIPLE #2 - Fund operating expenditures associated with leasing or constructing additional workspace.

Operating expenditures associated with leasing or constructing additional workspace will be limited in the FY 2010 operating budget. The operating costs will be limited because the City is undertaking two major CIP projects, Gude Drive Facility Improvements and Police Station, to address the additional workspace needs. These projects are essential because the City has limited workspace to accommodate the staffing levels required to keep up with the City's service demands.

The Gude Drive Facility Improvements project funds the modernization and expansion of the City's maintenance complex. The current complex has exceeded its intended capacity, and the facilities are in need of major structural rehabilitation and modernization. In addition to housing employees that are currently located at Gude, the new complex will house all Public Works employees freeing up much needed space at City Hall. The current proposed budget for Gude Drive is approximately \$19.0 million (\$3.2 million of the \$19.0 million has already been spent for Phase I); this total includes green building elements that are LEED certified. Staff is currently planning a tour of the Gude Drive facility and an architect's presentation prior to the FY 2010 budget worksessions in April.

The Police Station project funds the design and construction for the adaptive re-use of the Old Rockville Post Office. This project includes renovations and modifications primarily to the interior spaces and construction of a new annex building. Although recent attempts by the City to secure Burbanks have not worked out, the City has asked WGM to explore a three story annex design. The Police Station project is a substantial investment for the City and we need to provide for maximum future growth at that site. The current proposed budget for the Police Station is approximately \$9.6 million (\$2.85 million unfunded).

Because both Gude Drive and the Police Station will be underway in FY 2010, the operating costs associated with maintaining them will only begin in the FY 2011 budget. FY 2011 and FY 2012 operating cost impacts for both facilities will total approximately \$500,000. This expenditure will be offset by the savings from the elimination of the lease payments at 20 and 30 Courthouse Square.

EXPENDITURE PRINCIPLE #3 - Fund increases in commodity and supply prices.

Commodity and supply prices are a major factor when determining the total cost to maintain current programs and service levels. For the FY 2010 budget, the City expects a significant increase in the price of electricity (approximately \$223,500 for the General Fund). The price of other commodities, such as chemicals, gasoline and heating fuel, have remained relatively flat with the current market conditions. In the proposed budget staff will recommend funding the additional electricity expenditures in order to maintain programs and service levels. For the remainder of FY 2009 and into FY 2010, staff will closely monitor other commodities in order to mitigate the budgetary impact resulting from volatile markets and potential increases in prices.

EXPENDITURE PRINCIPLE #4 - Continue to implement the recommendations from the compensation and benefits study approved in FY 2008 and honor the current union contract.

Given the decrease in the FY 2010 revenues and the uncertainty in future years, the FY 2010 budget will include several reductions for regular employees. The City of Rockville strives to maintain competitive compensation and benefits, but given our current financial situation several changes are needed to remain fiscally responsible. For FY 2010, the recommended budget will include an annual cost of living adjustment of 3.25 percent, along with the changes to the merit system and pay structure as listed below. For FY 2011 and future years, the City may not be able to continue to fund cost of living adjustments and merits at these levels if the economy continues to worsen.

- Suspend all employee reclassification studies - \$30,000 savings
- Eliminate the City's pay-for-performance lump sum awards for senior administrative and administrative

employees - \$70,000 savings

- Reduce the merit scale for all senior administrative and administrative employees to 0.00 to 3.25 percent - \$50,000 savings
- Eliminate the personnel contingency account - \$100,000 savings

EXPENDITURE PRINCIPLE #5 - Contribute to retiree health care costs (GASB 45).

The original plan to fund the City's retiree health care liability included a five-year schedule of significant contributions until full funding was achieved (approximately \$262,000 each year for five years). At the beginning of FY 2009, staff recommended paying off the liability in full from one-time FY 2008 surplus funds. This plan, approved by the Mayor and Council through the November 2008 budget amendment, required an additional appropriation of \$1,045,000 (all funds) in FY 2009. Because the Mayor and Council decided to fully fund this liability in FY 2009, the FY 2010 contribution can be reduced to zero.

EXPENDITURE PRINCIPLE #6 - Increase caregiver agency funding and continue with competitive grant funding process.

Each year the Division of Community Services coordinates a committee to review and evaluate all caregiver and outside agency funding requests received by the City. After the committee reviews and evaluates each application, they develop funding recommendations for each program. These recommendations take into account the number of City residents served, the demonstrated need for the service, and the quality of the application. This year, in response to a request made by the Mayor and Council at the FY 2009 budget worksessions, the Division of Community Services created two committees to review and evaluate the grant applications. The first committee, the employee panel, was made up of three City employees from the departments of the City Manager, Finance, and Recreation and Parks. The second committee, the community panel, was made up of three members from the Human Services Advisory Commission, the Human Rights Commission, and the Recreation and Park Advisory Board.

Each panel's funding recommendations were compared and, in an effort to increase the amount of funding the City provides to the caregivers in FY 2010, staff recommends the Mayor and Council fund the higher of the two recommendations for the FY 2010 budget. Taking the higher of the two recommendations totals \$514,000 or 8.7 percent over FY 2009.

The outside agency grant recommendation totals \$184,900 or 19.4 percent over the FY 2009 adopted budget. This increase is mainly due to the addition of a new outside agency, the Rockville Science Center, Inc. As shown in the chart below the outside agency funding varies from year-to-year unlike the caregiver funding. The variance stems from the needs of the organizations in any particular year (some agencies request funding for different projects each year).

Rockville Economic Development, Inc. (REDI) is not required to submit a grant application, and is not included in the formal evaluation process. Instead, REDI and the City have a contract through FY 2010 that specifies the amount of the City's grant each year (FY 2010 is the third year of a three year contract). The FY 2010 contract amount totals \$517,500 which is 4.8 percent over FY 2009.

Agency Type	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Caregiver - Human Needs	\$400,294	\$426,800	\$444,500	\$472,575	\$514,000
Outside - Other	\$157,018	\$180,645	\$214,378	\$154,800	\$184,900
REDI	\$404,635	\$451,046	\$471,112	\$493,800	\$517,500

EXPENDITURE PRINCIPLE #7 - Transfer \$5.1 million to the City's Capital Projects Fund.

The CIP program is mainly funded from four components: debt, cash (pay-go transfer from the General Fund), government grants, and developer contributions. The FY 2010 proposed budget will include a transfer of \$5.1 million in pay-go contribution to the City's Capital Projects Fund. The pay-go contribution is critical in controlling the City's overall debt and maintaining the City's credit rating. Because of the recent and ongoing turmoil in the financial markets, many local governments are finding it difficult to

obtain competitively priced bond financing. Even triple A rated entities like the City of Rockville are paying higher than normal interest rates on their bonds. Many local governments are either delaying or cancelling capital projects as a result of market conditions.

As mentioned earlier in this report, the City is undertaking two major CIP projects, Gude Drive Facility Improvements and Police Station, to address the City's additional workspace needs. In order to fund these large projects the City plans to issue debt in FY 2010 when conditions are most favorable. By increasing the pay-go transfer to the CIP from \$4.5 million to \$5.1 million we are able to reduce the amount we need to borrow for these projects. In addition to increasing the pay-go contribution, staff decreased the overall FY 2010 CIP budget in order to remain fiscally responsible given our current financial commitments to Gude and the Police Station. One factor that is still unknown is the potential for stimulus funding from the federal government. If the City receives stimulus funding for CIP projects in FY 2010, we may be able to further reduce the amount we need to borrow.

Staff used the results from the CIP prioritization process to reduce, defer, or eliminate projects or parts of projects. FY 2010 was the second year that the City went through a Citywide CIP prioritization process. The projects that were adjusted by at least \$100,000 are listed below (these adjustments compare to the budgeted numbers in the FY 2009 adopted CIP).

- Asphalt Pavement Maintenance - Reduced by \$294,000 in FY 2010
- Avery Road - Moved \$1.2 million to unfunded in FY 2012 and FY 2013
- Ballfield Equipment Replacement - Deferred \$1.1 million to FY 2011, FY 2012, and FY 2013
- Concrete Repair - Reduced by \$588,700 in FY 2010
- Courthouse Square Fountain Plaza - Deleted \$121,500 in FY 2011 (funded with arts revenue)
- F. Scott Fitzgerald - Deleted \$192,000 in FY 2010 (funded with arts revenue)
- Gateway Welcome Signs - Moved \$475,000 to unfunded in FY 2012
- King Farm "Farmstead" Park - Reduced by \$353,900 in FY 2010
- Park Pedestrian Bridge Improvement - Deferred \$116,300 to FY 2011
- Park Sign System Replacement - Moved \$191,000 to unfunded in 2012
- Playground Equipment Replacement - Deferred \$130,000 to FY 2011
- Rockcrest Recreation Center - Deferred \$936,835 to FY 2011 and FY 2012
- Rockville Intermodal Access - Baltimore Road - Deferred \$800,000 to FY 2011
- Senior Center Improvements - Reduced by \$275,000 and deferred to FY 2011

Any decision by the Mayor and Council to reduce the recommended pay-go amount will not only impact the amount we need to borrow, but it will also impact the City's debt ratios. Excluding extraordinary circumstances that might justify exceptions, it is important that the City's debt is managed within the current guidelines and established target ratios.

EXPENDITURE PRINCIPLE #8 - Fund \$370,000 in operating cost impacts from completed Capital Improvements Program projects.

The FY 2010 proposed budget will contain an additional \$370,000 in operating costs associated with completed CIP projects. The \$370,000 is budgeted across several departments in electricity, program supplies, contract services, and temporary employees.

EXPENDITURE PRINCIPLE #9 - Assist with the annual deficit in the Parking Fund.

The FY 2010 proposed budget will include a \$950,000 transfer from the General Fund to the Parking Fund to assist with the annual Parking Fund deficit consistent with prior years. It is prudent to keep the transfer amount stable until it is demonstrated that the changes approved by the Mayor and Council (to be implemented in May 2009) will generate sufficient revenues to support more of the Fund's annual expenses. The changes that the Mayor and Council approved include increasing the hours on Monday through Friday from 7:00 am to 10:00 pm, and adding Saturdays from 7:00 am to 10:00 pm.

Parking revenue is anticipated to increase by approximately \$530,000 (hourly, library, and employee

Staff is currently analyzing various ideas raised by the Town Square merchants on how to maintain Parking District revenues without directly impacting their retail customers. Many of these ideas would reduce revenue, however, one idea is to increase the Parking District tax rate (currently \$0.300) to help offset not charging for parking in the Town Square garages on nights and Saturdays, which is planned to begin May 2009. If the Parking District tax rate is increased, the commercial properties would not experience an overall increase in their property tax rate because the Parking District increase would be offset by a \$0.220 decrease in the Commercial District (see Town Center Management District Fund). Federal Realty has agreed to consider this concept, but further analysis is required to determine its feasibility. Each commercial property in Town Square pays the General City tax, the Street and Area Lighting District tax, the Commercial District tax, and the Parking District tax.

The FY 2010 proposed budget will contain funding to implement the goals and priorities of the Mayor and Council as identified at their January 2008 retreat. Specific items that will be included in the proposed budget include: Zoning Ordinance adoption and implementation, culture and entertainment plan implementation, street lighting improvements, pedestrian safety improvements, increased communication and engagement via electronic means, and implementation of a sustainability strategy. These Mayor and Council items are funded through general staff time, operating budgets, and CIP projects.

General Fund Revenue Principles

- **Real Property Tax Rate: \$0.292**
- **Personal Property Tax Rate: \$0.805**

For the last three fiscal years, the Mayor and Council have approved a one-penny reduction in the real property tax rate (see table below). During this time the City was able to sustain the reductions because the taxable assessments on residential properties were steadily increasing. Staff estimates that beginning in FY 2010 taxable assessments will slow, or even flatten (see assessed values below). The total taxable assessed value from FY 2009 to FY 2010 is estimated to increase by only 1.6 percent. This shows a major slowing in assessed values compared to previous fiscal years. All properties in the City have been, or will be reassessed in January 2009 or January 2010, and upon completion of the remaining assessments in January 2010, the total assessed value will potentially flatten or even decrease starting in FY 2011.

[illegible]

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Real Property Tax Rate	\$0.322	\$0.312	\$0.302	\$0.292	\$0.292
Real Property Tax Revenue	\$25.48 million	\$27.60 million	\$29.10 million	\$30.95 million	\$32.63 million
Real Property Assessments	\$7.54 billion	\$9.01 billion	\$10.15 billion	\$11.50 billion	\$11.68 billion
Change from Prior Year *	4.8%	19.5%	12.7%	13.3%	1.6%

* Represents percent change in real property taxable assessed value from prior fiscal year.

The full impact of the change in assessed values on property tax revenues will not be felt immediately due to the method by which the State caps the annual increase in the taxable assessed value through the Homestead Tax Credit. The Homestead Tax Credit was designed to blunt the impact of rapidly raising assessments, setting a cap for the amount a residential assessment can increase each year. With the Homestead Tax Credit in place, many residents are currently paying property taxes on the lower taxable assessed values and not the true assessed values. As assessments decrease, the taxable assessed values will equal the true assessed values, which will ultimately lead to a flattening in property tax revenues.

REVENUE PRINCIPLE #2 - Continue to offer tax credit programs that benefit residential property owners.

• **Homeowners' Tax Credit Program (with Senior Credit)** - The City's Homeowners' Tax Credit Program was first approved by the Mayor and Council in the FY 2006 budget. That first year, 366 households participated and received an average credit of \$200. In FY 2007, 630 residents received an average credit of \$308, and in FY 2008 660 residents received an average credit of \$296. The Homeowners' Tax Credit Program is a State administered program that provides real property tax credits to residents for property taxes due on their principal residence. Under the City's current Homeowners' Tax Credit Program as presented in Chapter 22 "Taxation" of the Rockville City Code, households with gross incomes up to \$70,000 per year and a household net worth of less than \$200,000 (not including the value of the home or qualified retirement savings) could qualify for tax relief on the first \$300,000 of their home's assessed value. For low-income households, the credit could be several hundred dollars with the maximum credit totaling the City tax due on the first \$300,000 of assessed value. In FY 2009, the Mayor and Council expanded this program to include an additional 25 percent credit for seniors 70 years or older who are primary homeowners.

In July 2008, the Mayor and Council directed staff to work with the State Department of Assessments and Taxation to determine the total amount of the Homeowners' Tax Credit program with different parameter values. These values included gross incomes up to \$85,000 per year and a household net worth of less than \$150,000 (not including the value of the home or qualified retirement savings); under the proposed parameter values residents could qualify for tax relief on the first \$400,000 of their home's assessed value. Staff estimates that under the new parameter values the total City Homeowners' Tax Credit Program, which includes the additional 25 percent Senior credit, could cost up to \$800,000 for FY 2010. The FY 2010 proposed budget will recommend the Homeowners' Tax Credit Program under these new parameters. Staff estimates the new parameters will dramatically increase the number of residents who apply and receive this credit.

• **Income Tax Offset Credit** - As a result of the reductions in major General Fund revenues for FY 2010, a one-time income tax credit will not be included in the FY 2010 proposed budget. In FY 2008 and 2009, the Mayor and Council provided a one-time \$100 credit per owner-occupied residential property through the State's Income Tax Offset Program. Under Maryland law, the City of Rockville may grant a real property tax credit that offsets increased income tax revenue. For the past two years, Rockville used this program to target tax relief for owner-occupied residential properties (approximately 15,400 in the City), in addition to the homeowners' tax credit program and the property tax rate reduction.

If the Mayor and Council wish to provide additional tax relief in FY 2010, this type of relief is prudent given current economic conditions because it does not impact future revenue growth and the provision of

future services. Any decision by the Mayor and Council to provide an income tax offset credit should be accompanied by a matching reduction in the FY 2010 operating expenditure budget. Each \$10 income tax credit totals \$154,000 in decreased property tax revenue for the City.

REVENUE PRINCIPLE #3 - Budget revenues conservatively to ensure sufficient funds are available throughout FY 2010.

Below is a summary of major General Fund revenue sources. As mentioned earlier, many of these revenues will decrease from FY 2009 to FY 2010 due to the State and County budget deficits, current economic conditions, and the poorly performing financial markets.

- **Income Tax** - Income tax is the second largest source of revenue in the General Fund, constituting 15 percent of the FY 2009 adopted General Fund budget. Income tax revenue consists of the City's share of income tax received by the State of Maryland for returns filed from Rockville. Maryland counties are able to impose an income tax that is separate from the State income tax. According to Maryland law, municipalities receive 17 percent of county income tax collected within the municipality. Montgomery County's income tax rate is currently 3.2 percent. For FY 2010, the City anticipates at least \$9.3 million in income tax revenue given the current economic conditions.

Revenue	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Income Tax	\$9.04 million	\$9.82 million	\$10.62 million	\$9.30 million	\$9.30 million

- **Highway User** - The City's share of gasoline tax and vehicle registrations collected by the State is given to the City in the form of highway user revenue. The estimated highway user revenue for the FY 2010 budget is based on a Maryland State Highway Administration (SHA) estimate of registration and mileage figures. The FY 2010 budget assumes \$2.5 million in revenue. This is lower than previous years mainly due to the decline in new vehicle purchases.

Revenue	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Highway User	\$3.10 million	\$3.26 million	\$3.05 million	\$2.75 million	\$2.50 million

- **Tax Duplication** - This revenue is received from Montgomery County as a partial reimbursement for tax duplication. Several factors, such as number of streetlights and number of street miles maintained by the City, determine what the City receives each year. The County is currently working on a new formula to determine the amount of tax duplication that municipalities will receive. The formula is not yet finalized, but City staff believe that when the formula is finalized the City's portion of tax duplication will be significantly reduced. The County recently implied that the formula will not be finalized for FY 2010, but that municipalities should assume at least a 10 percent reduction in tax duplication revenue from levels received in FY 2007, FY 2008, and FY 2009.

Revenue	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Tax Duplication	\$2.13 million	\$2.23 million	\$2.23 million	\$2.23 million	\$2.00 million

- **Hotel Tax** - This revenue consists of the City's share of tax imposed on a person who pays for a room or space at a hotel. FY 2009 is the first year for the 2 percent hotel tax, which began October 1, 2008. Revenues as of December 2008 are consistent with the FY 2009 adopted budget. For FY 2010, the City anticipates at least \$800,000 in hotel tax revenue.

Revenue	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Hotel Tax	\$ -	\$ -	\$ -	\$600,000	\$800,000

- **Interest Earnings** - This revenue consists of the interest that is earned on the City's investment portfolio. Interest earnings will decrease dramatically in FY 2009 and FY 2010 due in part to the Federal Reserve reducing the Federal Funds Target Rate (the overnight bank lending rate) to zero which impacts

the rate on the City's investment portfolio. Until the economy strengthens and overall interest rates increase, the City will budget this revenue source conservatively and look for other opportunities to increase interest earnings while ensuring safety and liquidity.

Revenue	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Interest Earnings	\$1.22 million	\$1.09 million	\$890,000	\$274,000	\$300,000

REVENUE PRINCIPLE #4 - Budget fees and charges to achieve maximum cost recovery.

Other revenue sources, such as user fees, were analyzed during the FY 2010 budget process to ensure the City is meeting cost recovery goals, and to ensure City fees are consistent with the current market conditions. Several of the City's fees will be increased in the FY 2010 budget. These fees include: commercial/business license and permit fees, residential license fees, code citation fines, zoning permit fees, and various recreational program fees. Some of these increases are necessary to offset increased operating expenditures of City programs.

Revenue	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
User Fees, Charges, Fines	\$6.21 million	\$6.17 million	\$6.10 million	\$6.33 million	\$6.55 million

In addition to evaluating user fees and charges internally, the Mayor and Council approved a formal cost allocation and user fee study in FY 2009 which will extend into FY 2010. This study will analyze all current users fees, customer charges, and internal administration charges to determine if fees are competitive and being appropriately charged, and if overhead is fairly allocated. Depending on the results of the study, General Fund revenues may increase during FY 2010 and in future years.

REVENUE PRINCIPLE #5 - Explore the option of charging Montgomery County City of Rockville fees that are currently being waived.

Several City of Rockville fees are currently being waived for Montgomery County. Over the last six months, staff identified the type of fees being waived for the County, and analyzed the projected amount of revenue these fees would produce for FY 2010. The total amount of revenue that was estimated is less than \$25,000 and would not have a significant impact on the General Fund budget. As a result of this analysis, and in an effort to maintain positive relationships with the County, staff proposes not to charge Montgomery County the fees that are currently being waived.

Water Facility Fund

The Water Facility Fund is used to account for the financial activity associated with the treatment and distribution of potable water. In FY 2008, the Department of Public Works presented two comprehensive studies that evaluated the City's overall water program related to the Water Treatment Plant and the Water Distribution System. As a result of these two studies, starting in FY 2009 the City increased both the Water Fund operating and CIP budgets to address the concerns that were identified. To fund the increases in the budgets, and in accordance with the Mayor and Council's adopted plan, the water usage rates increased by 25 percent from FY 2008 to FY 2009, and will increase again by 25 percent from FY 2009 to FY 2010. Major water rehabilitation projects that are designed to address the concerns of the studies are already underway. In addition to the water usage rate, customers also pay a ready-to-serve charge that will increase by 3 percent from FY 2009 to FY 2010 and is equally distributed to both Water and Sewer funds.

Usage Tier (per quarter)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Per 1,000 gall - first 12,000	\$2.26	\$1.62	\$1.78	\$2.23	\$2.78
Per 1,000 gall - next 12,000	\$2.26	\$2.33	\$2.56	\$3.20	\$4.00
Per 1,000 gall - over 24,000	\$2.26	\$2.50	\$2.75	\$3.44	\$4.30

Sewer Fund

The Sewer Fund accounts for the financial activity associated with the collection of sewage. Charges are based on water consumption. In accordance with the Mayor and Council's adopted plan, the Sewer Fund rate for FY 2010 equals \$4.12 per 1,000 gallons. This is an increase of \$0.15 or 3.8 percent over the FY 2009 adopted rate of \$3.97 per 1,000 gallons. In addition to the rate, customers also pay a ready-to-serve charge that will increase by 3 percent from FY 2009 to FY 2010 and is equally distributed to both Water and Sewer funds.

The Mayor and Council have recently received a proposal to implement a declining block rate structure for sewer rates instead of the current single usage rate. FY 2010 rates will change accordingly if the Mayor and Council opt for the declining block rate structure.

Usage	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Sewer Rate per 1,000 gall	\$3.75	\$3.63	\$3.82	\$3.97	\$4.12

Refuse Fund

The Refuse Fund is used to account for the financial activity associated with the collection and disposal of refuse, recycling, and yardwaste. The FY 2010 Refuse budget will be based on a semi-automated once per week refuse and recycling program. The refuse rate for the FY 2010 budget will remain the same as the Adopted FY 2009 rate of \$32.70 per month. The semi-automated once per week system provides reduced operating expenses because less personnel (including a reduction of 3.6 FTEs in FY 2010), contractual services, commodities, and vehicles and equipment are needed. Because of these reduced operating expenses, the rate has remained the same for FY 2008, FY 2009, and FY 2010. It is staff's goal to maintain this same rate through full implementation.

Usage	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Refuse Rate (per month)	\$29.50	\$31.00	\$32.70	\$32.70	\$32.70

Parking Fund

The Parking Fund was created to account for the revenue and expenses from parking related activities, including the issuance of parking tickets, the parking meter program, and the costs associated with the construction and operation of the three public parking garages in the City's Town Square. In order to manage the three parking garages and on-street meters within Town Square, the Town Center Parking District was formed. The Parking District tax rate for FY 2010 is proposed to remain the same at \$0.300 per \$100 dollars of assessed value. All commercial properties that are located within the Town Square boundaries pay this tax. This tax will provide over \$200,000 towards funding the District.

Special Tax District	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Parking	N/A	N/A	\$0.300	\$0.300	\$0.300

In addition to the revenues raised by the Parking Fund, the FY 2010 proposed budget will include a \$950,000 transfer from the General Fund to support the parking enterprise. Staff recommends keeping the transfer amount at \$950,000 until parking revenues offset more Parking Fund expenses.

Parking meter revenue is anticipated to increase by approximately \$530,000 (hourly, library, and employee parking in the garages total \$300,000 of the \$530,000) in FY 2010 as a result of the Mayor and Council's decision to charge nights and Saturdays starting in May 2009. The current hourly parking rate in Town Center is \$1.00 per hour for parking Monday through Friday, 7:00 am to 7:00 pm. The Mayor and Council approved increasing the hours on Monday through Friday from 7:00 am to 10:00 pm, and added Saturdays from 7:00 am to 10:00 pm.

As mentioned earlier under Expenditure Principle #9, staff is currently analyzing various ideas raised by

the Town Square merchants on how to minimize the impact of garage parking fees on retail customers.

Stormwater Management Fund

The Stormwater Management (SWM) Fund accounts for the financial activity associated with maintaining existing SWM facilities and constructing new facilities. In FY 2008, Public Works staff indicated that a stormwater utility fee will be needed to fund Rockville's existing and expanded stormwater, storm drainage and water quality programs. Historically, rapid development has funded much of Rockville's stormwater management with fees imposed on developers. With new development nearly complete and redevelopment presenting different challenges, staff identified the need to seek other funding sources to cover new programs and the maintenance of the public stormwater infrastructure.

In FY 2008 the Mayor and Council approved an ordinance to amend the City Code to include a new Stormwater Management Utility Fee. This ordinance enables the City to charge an annual fee per Equivalent Residential Unit ("ERU"). Although the Mayor and Council adopted the ordinance that enabled the fee, no fee was adopted in FY 2009. The expenses for the new program in FY 2009 were funded from the Stormwater Management's fund balance.

For the FY 2010 budget staff previously estimated a fixed fee per ERU of \$61.85. This fee was developed to generate sufficient revenue to cover the operating and capital expenses of the Stormwater Management Fund for FY 2010 and future years. The total operating budget for FY 2010 and future years has been scaled back from the original plan approved by the Mayor and Council in order to decrease the program expenses. The program as adopted by the Mayor and Council included 4.0 new FTEs in FY 2010 and 6.0 new FTEs in 2011. The scaled back program includes only 2.0 new FTEs in FY 2010 and only 2.0 new FTEs in 2011. Staff is currently working with the cash flow model to determine the amount of the fee that will be included in the FY 2010 proposed budget due to the scaled back program and other revised program expenses and revenues.

RedGate Golf Fund

The RedGate Golf Fund is used to account for the financial activity associated with the City's public golf course. After covering all of its operating, overhead and capital costs for nearly thirty years, RedGate began operating in the red in FY 2000. In response to financial losses over several years, staff presented a business plan to the Mayor and Council that analyzed the financial situation of the golf course in March 2006. The business plan focused on achieving the objective of generating sufficient revenues through fees and charges in order to pay for the costs of operations, capital outlay, and infrastructure improvements. FY 2010 will be the fourth year of the five-year business plan.

Although there has been several changes made since the business plan was adopted, and despite admirable efforts by the RedGate staff to reverse the losses, the Fund continues to have a deficit nearing \$1 million. Some of the changes the City made in order to assist RedGate over the last three years include: transferring \$372,500 from the General Fund to the RedGate Golf Fund to support capital improvements to the course, reducing the administrative charge to the General Fund by half, and intensifying overall marketing efforts.

Recognizing that the financial situation of the Fund was not improving, the Mayor and Council approved a staff recommendation to begin formal negotiations with the Montgomery County Revenue Authority to lease operations of the RedGate Golf Course to the Authority. The proposal involves a long-term arrangement in which the Revenue Authority would operate and maintain RedGate. If the Mayor and Council approve the proposed lease with a transition date prior to June 30, 2009, the FY 2010 budget will not include the RedGate Golf Fund. If the lease proposal is not approved by the Mayor and Council, the annual FY 2010 budgeted deficit will total approximately \$398,000; bringing the total deficit in the Fund to an estimated \$1.5 million at the end of FY 2010. If the Mayor and Council do not approve the lease

agreement, consideration should be given to address the annual operating deficit through a subsidy from the General Fund.

Town Center Management District Fund

The Town Square Street and Area Lighting District and the Town Square Commercial District were created in FY 2008 to support the maintenance and operational costs of the Town Center Management District. The Town Square Street and Area Lighting District (residential and commercial properties) and the Town Square Commercial District (only commercial properties) levy special property taxes on the properties within the Town Square boundaries. The tax rates are set to cover the proposed expenditure budget for the Town Center Management District Fund. The tax rate that is recommended for the Street and Area Lighting District will remain flat for FY 2010. This tax rate was previously capped per the General Development Agreement, however FY 2009 was the last year for the tax cap. The tax rate that is recommended for the Commercial District for FY 2010 will decrease by \$0.22 due to the decreased cost of the maintenance contract. Overall, the FY 2010 total expenditures for the Fund are approximately 18 percent lower than the FY 2009 adopted budget.

Special Tax District	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Street / Area Lighting	N/A	N/A	\$0.048	\$0.105	\$0.105
Commercial	N/A	N/A	\$0.530	\$1.200	\$0.980

Speed Camera Fund

The Speed Camera Fund, created in FY 2007, is a special revenue fund that tracks the financial transactions associated with the City's speed camera program. In FY 2010, an estimated 8,500 citations will be paid per month generating net revenue of \$2.4 million in the Speed Camera Fund. By state law, the program revenue is not available for general City operations. In keeping with the restricted nature of the fund, it is recommended that the FY 2010 revenues fund the operating expenditures of the program, 2.0 Police Officers (adopted in FY 2009), 0.5 FTE Civil Engineer (adopted in FY 2009), as well as several CIP projects that are directly related to traffic and pedestrian safety.

Recent developments at the State level indicate that revenues from speed camera citations may be restricted even further (or taken away altogether) by requiring that all funds be spent within two years after they are received. If the funds are not spent within the two year time period they will be returned to the State. Staff expects to have more information on this issue in the upcoming months.

Mayor and Council History

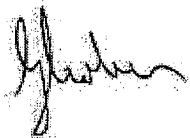
Each year it is the City's practice to provide the Mayor and Council with a preview of the upcoming year's budget in the late fall. This past fall staff provided the Mayor and Council with two preview/worksessions on October 27, 2008, and November 3, 2008.

Fiscal Impact

This presentation contains information that will impact the revenues and expenditures of the FY 2010 Operating and CIP budgets. The City Manager and Budget staff will incorporate any new policy direction and guidance of the Mayor and Council into the FY 2010 Proposed Operating and Capital Improvements Program budgets.

Next Steps

The FY 2010 Proposed Operating and Capital Improvements Program budgets will be presented to the Mayor and Council on March 23, 2009. Once the Proposed Budget is presented, four public hearings and two worksessions will take place with budget adoption scheduled for May 18, 2009.



Department Head: Gavin Cohen, Director of Finance
Approval Date: 02/18/2009



City Manager: Scott Ullery, City Manager
Approval Date: 02/19/2009